

PERFORMANCE AUDIT
OF THE

REAL ESTATE SUPPORT AREA

HIGHWAY BUREAU OF DEVELOPMENT
MICHIGAN DEPARTMENT OF TRANSPORTATION

August 2003



Michigan *Office of the Auditor General* **REPORT SUMMARY**

Performance Audit Real Estate Support Area Highway Bureau of Development Michigan Department of Transportation

Report Number:
59-172-02

Released:
August 2003

The Michigan Department of Transportation's (MDOT's) mission is to provide the highest quality transportation for economic benefit and improved quality of life. The Real Estate Support Area is one of two areas within the Highway Bureau of Development. It provides real estate services and right-of-way management, along with a variety of permit services, for all areas of MDOT, including 7 regional offices and 26 transportation service centers.

Audit Objective:

To assess the effectiveness and efficiency of MDOT's real estate acquisition and asset management activities and permit processes.

Audit Conclusion:

We concluded that MDOT's real estate acquisition and asset management activities and permit processes were generally effective and efficient. However, we noted reportable conditions related to retention of excess property and property acquisition information.

Reportable Conditions:

MDOT needs to develop procedures requiring operating units to periodically justify to MDOT central office management the need to continue retaining excess property (Finding 1).

MDOT staff did not enter complete and accurate information into the Real Estate Management Information System (Finding 2).

Audit Objective:

To assess MDOT's compliance with applicable statutes, the *Michigan Administrative Code*, the Department of Management and Budget (DMB) Administrative Guide, federal regulations, and MDOT policies and procedures related to real estate activities and permit processes.

Audit Conclusion:

We concluded that MDOT generally complied with applicable statutes, the *Michigan Administrative Code*, the DMB Administrative Guide, federal regulations, and MDOT policies and procedures related to real estate activities and permit processes. However, we noted reportable conditions related to accountability for permit fees, the Construction Permit System, and billboard permit renewals.

Reportable Conditions:

MDOT needs to improve the accountability for its permit fees and comply with DMB and MDOT cash handling procedures (Finding 3).

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MDOT staff did not enter all applicable information into the Construction Permit System (Finding 4).

MDOT needs to ensure that billboard permit renewals and revocations are processed in accordance with State statute and MDOT procedures (Finding 5).

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Agency Response:

The agency preliminary response indicated that MDOT concurs with all 5 recommendations and was initiating corrective action for them.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: www.state.mi.us/audgen/



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AUDITOR GENERAL

August 12, 2003

Mr. Ted B. Wahby, Chairperson
State Transportation Commission
and
Ms. Gloria J. Jeff, Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Wahby and Ms. Jeff:

This is our report on the performance audit of the Real Estate Support Area, Highway Bureau of Development, Michigan Department of Transportation.

This report contains our report summary; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Agency

The Michigan Department of Transportation (MDOT) was organized under Sections 16.450 - 16.458 of the *Michigan Compiled Laws* (sections of the Executive Organization Act of 1965). MDOT is governed by the State Transportation Commission, which is made up of six members who are appointed by the Governor with the advice and consent of the Senate. The Commission is responsible for establishing policies. MDOT is managed by a director, appointed by the Governor, who is responsible for administering MDOT and implementing the policies established by the Commission. MDOT's mission* is to provide the highest quality transportation for economic benefit and improved quality of life.

The Real Estate Support Area is one of two areas within the Highway Bureau of Development. It provides real estate services and right-of-way management, along with a variety of permit services, for all areas of MDOT, including the 7 regional offices and 26 transportation service centers. The Real Estate Support Area is divided into four sections: Administrative Section, Project Development Section, Project Delivery Section, and Utilities Coordination and Permits Section.

The Administrative Section is responsible for directing and controlling the functions of the support area; ensuring that all support area procedures are in accordance with laws, rules, and regulations; approving right-of-way certification; administering all contractual services for all support area sections; and evaluating staff training needs.

The Project Development Section is responsible for authorization of real estate acquisitions and advanced acquisitions, right-of-way cost estimates, right-of-way certifications, project close-out procedures, computer equipment, technical support for the Real Estate Management Information System, and management of excess property.

The Project Delivery Section is responsible for providing various real estate services, which include appraisals, acquisitions, business and residential relocation, abstracting and property tax, and condemnation coordination, and serving as a liaison to local public agencies.

* See glossary at end of report for definition.

The Utilities Coordination and Permits Section is responsible for the construction permit program, highway advertising control, junkyard screening program, transport permit program, and utility relocation program.

The Real Estate Support Area funding is provided from vehicle gasoline, weight, and value taxes plus sales taxes on vehicles, parts, and accessories. This funding is distributed to transportation programs in accordance with Sections 247.651 - 247.675 of the *Michigan Compiled Laws* (Act 51, P.A. 1951, as amended). Funding is also provided by the U.S. Department of Transportation from federal fuel and excise taxes on certain commodities.

The Real Estate Support Area expenditures and encumbrances were approximately \$2.9 million for the fiscal year ended September 30, 2002. As of December 31, 2002, the Real Estate Support Area had 55 full-time equated employees.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit* of the Real Estate Support Area, Highway Bureau of Development, Michigan Department of Transportation (MDOT), had the following objectives:

1. To assess the effectiveness* and efficiency* of MDOT's real estate acquisition and asset management activities and permit processes.
2. To assess MDOT's compliance with applicable statutes, the *Michigan Administrative Code*, the Department of Management and Budget Administrative Guide, federal regulations, and MDOT policies and procedures related to real estate activities and permit processes.

Audit Scope

Our audit scope was to examine the program and other records of the Real Estate Support Area. Our audit was conducted in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures, conducted from August through December 2002, covered the period October 1, 2000 through December 31, 2002. Our audit methodology included conducting a preliminary survey of the Real Estate Support Area to develop an understanding of its responsibilities and the methods used to monitor the accomplishment of these responsibilities. We met with Lansing, regional, and transportation service center staff to review and evaluate the methods used to monitor real estate management activities and permit issuance processes.

We reviewed our prior audit reports as well as reports of MDOT's Office of Commission Audits. We also reviewed audit reports from other states on functions similar to those performed by the Real Estate Support Area.

* See glossary at end of report for definition.

We obtained copies of the Real Estate Support Area's user manuals that have been developed to guide Lansing and field staff performing real estate and permit activities. We reviewed relevant federal and State regulations, State administrative rules, and applicable procedures.

We obtained data file downloads and records used to document and record real estate and the various permit activities. We used this data for analyzing real estate and permit activities performed during our audit period.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 5 findings and 5 corresponding recommendations. The agency preliminary response indicated that MDOT concurs with all 5 recommendations and was initiating corrective action for them.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require MDOT to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

MDOT complied with 4 of the 5 prior audit recommendations. The remaining recommendation was rewritten for inclusion in this report to address the current condition.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS AND EFFICIENCY

Audit Objective: To assess the effectiveness and efficiency of the Michigan Department of Transportation's (MDOT's) real estate acquisition and asset management activities and permit processes.

Conclusion: We concluded that MDOT's real estate acquisition and asset management activities and permit processes were generally effective and efficient. However, we noted reportable conditions* related to retention of excess property and property acquisition information.

FINDING

1. Retention of Excess Property

MDOT needs to develop procedures requiring operating units to periodically justify to MDOT central office management the need to continue retaining excess property.

MDOT acquires property to allow it to perform construction projects of roads and airports. In order to complete these acquisitions, MDOT often has to acquire complete parcels of property that are more than is actually needed for the respective project. Once the project is completed, the portion of the property that was not needed for the project is referred to as "excess property." MDOT classifies excess property as being available for sale, on temporary hold, or on permanent hold. Property is placed on temporary hold if there is a possibility that it may be used in the near future or on permanent hold if it may be in the best interest of the public for MDOT to maintain ownership for safety reasons or scenic purposes. MDOT regional and/or division offices can request that excess property be placed on temporary or permanent hold.

MDOT procedures require that excess property available for sale be sold as soon as possible and that property on temporary hold be held until the date specified in

* See glossary at end of report for definition.

the property-hold request. However, the procedures for excess property on permanent hold do not require periodic justification for the need to continue to hold such properties.

We reviewed excess property on permanent hold as of October 30, 2002 and determined that there were 82 parcels totaling over 231 acres on permanent hold. The following is a breakdown, by region, of the property on permanent hold:

Region	Number of Parcels	Percentage of Total Parcels	Acres on Permanent Hold	Percentage of Total Acres	Longest Hold on Record
Superior	4	4.9%	6.8	2.9%	August 2002
North	6	7.3%	31.4	13.6%	September 1994
Bay	3	3.7%	5.0	2.2%	December 1997
Grand	63	76.8%	169.4	73.1%	May 1989
Southwest	1	1.2%	10.0	4.3%	March 2001
University	4	4.9%	2.5	1.1%	March 1994
Metro	1	1.2%	6.5	2.8%	May 2002
Total	82	100.0%	231.6	100.0%	

Any unnecessary delay in the disposal of unneeded property results in the loss of property tax revenues for the counties in which the property is located and a potential personal injury liability to the State, in addition to the loss of revenue from the sale of the property.

RECOMMENDATION

We recommend that MDOT develop procedures requiring operating units to periodically justify to MDOT central office management the need to continue retaining excess property.

AGENCY PRELIMINARY RESPONSE

MDOT concurs with the recommendation. MDOT will develop and distribute to operating units definitions for the following terms: right-of-way; permanent hold and temporary hold as related to operational right-of-way; and other types of right-of-way (wetland mitigation sites, maintenance garages, and rest areas). MDOT will develop operational procedures to address the justifications needed for an excess property parcel to be placed on permanent hold and the periodic re-review time limits needed when a permanent hold is placed on an excess property parcel. This information will be provided by September 30, 2003. MDOT will modify the excess

property database to automate and record the re-review dates and justification information by December 30, 2003.

FINDING

2. Property Acquisition Information

MDOT staff did not enter complete and accurate information into the Real Estate Management Information System (REMIS).

During 1998, MDOT implemented REMIS for assistance during the property acquisition process. REMIS was developed to record and maintain acquisition information about individual parcels of property and, when a project was completed, to identify excess property. User manuals were available to staff using REMIS to provide them with guidance on how to enter, update, and retrieve data in the system. These manuals require staff to enter property acquisition information, such as property description, purchase price, and name of owner.

Our review of property acquisition information recorded in REMIS during fiscal year 2000-01 disclosed that staff did not record all information applicable to the individual parcel acquisitions. We determined that acreage information was not recorded for 182 (53%) of 346 property acquisitions and that the purchase price was not recorded for 50 (14%) of 346 property acquisitions.

During our prior audit, we noted that staff were not recording complete acquisition information on the system in use at that time. According to MDOT's response, it agreed with the finding and stated that it would reiterate to staff the requirement to provide complete information on property acquisitions.

Incomplete property acquisition information reduces the effectiveness of REMIS as a property management tool.

RECOMMENDATION

We recommend that MDOT staff enter complete and accurate information into REMIS.

AGENCY PRELIMINARY RESPONSE

MDOT concurs with the recommendation. Training sessions on REMIS have been conducted on an annual basis for users. Periodic instructional e-mails are planned for users, emphasizing the importance of timely, complete, and accurate information input into the asset management system. The inclusion of automated forms with connectivity to the database is being examined for inclusion in a future update of REMIS.

COMPLIANCE

Audit Objective: To assess MDOT's compliance with applicable statutes, the *Michigan Administrative Code*, the Department of Management and Budget (DMB) Administrative Guide, federal regulations, and MDOT policies and procedures related to real estate activities and permit processes.

Conclusion: We concluded that MDOT generally complied with applicable statutes, the *Michigan Administrative Code*, the DMB Administrative Guide, federal regulations, and MDOT policies and procedures related to real estate activities and permit processes. However, we noted reportable conditions related to accountability for permit fees, the Construction Permit System, and billboard permit renewals.

FINDING

3. Accountability for Permit Fees

MDOT needs to improve the accountability for its permit fees and comply with DMB and MDOT cash handling procedures.

MDOT is responsible for processing permits for billboards, oversize and overweight vehicles, utility relocation, and nonhighway construction activities on State highway right-of-way. Customers can initiate applications for these permits at MDOT regional and transportation service center (TSC) offices and the Lansing Real Estate Support Area office, as well as through private firms authorized to issue such permits for MDOT.

MDOT has established procedures that require regional and TSC offices to maintain logs of all permit activity handled during a month and to submit these logs

and supporting documentation to the Lansing Real Estate Support Area office for monthly reconciliation with the automated permit issuance records. DMB and MDOT procedures also require locations receiving cash receipts to deposit these receipts at a minimum of every week.

Our review of the Real Estate Support Area transport permit files disclosed that monthly reconciliations were not made in a timely manner. The Real Estate Support Area had not completed reconciliations for the most recent six months.

Our review of permit files from two months that had been reconciled disclosed that regional and TSC offices had not submitted all required documentation to allow the Real Estate Support Area to effectively perform its reconciliations of transport permit fees. We noted:

- a. Regional and TSC offices did not submit 12 (24%) of 50 permit logs. These logs, along with additional supporting documentation, are necessary for the Real Estate Support Area to perform its reconciliations.
- b. Of the 38 permit logs that were submitted, regional and TSC offices did not submit copies of voided permits as required for 13 (81%) of the 16 logs with voided permits noted on them. Deposits for 5 (38%) of the 13 logs did not agree with the permit logs. Submission of the copies of voided permits is necessary to support amounts recorded on the permit logs.
- c. Regional and TSC offices did not deposit receipts in a timely manner for 18 (47%) of the 38 permit logs. DMB and MDOT procedures require that receipts be deposited at least weekly. We determined, based on a weekly deposit frequency, that deposits were made from 7 to 33 days late. Failure to deposit funds in a timely manner increases the risk of loss or theft.
- d. Regional and TSC offices did not submit copies of deposit slips for 11 (29%) of the 38 permit logs as required. Without supporting documentation, the Real Estate Support Area's current reconciliation process is not effective.

RECOMMENDATION

We recommend that MDOT improve the accountability for its permit fees and comply with DMB and MDOT cash handling procedures.

AGENCY PRELIMINARY RESPONSE

MDOT concurs with the recommendation. MDOT will distribute a memorandum to the operating units by August 1, 2003, re-emphasizing the need to follow established cash handling procedures and clarifying roles and responsibilities in the reconciliation process.

FINDING

4. Construction Permit System (CPS)

MDOT staff did not enter all applicable information into CPS.

MDOT's CPS is an automated database for tracking construction permit activity within the highway right-of-way throughout the State. Regional and TSC offices are responsible for entering information for construction permits as they are issued. This information is used to monitor construction activity and permit revenues and to provide information to MDOT for processing performance bond cancellation requests. MDOT also uses CPS for billing companies that regularly obtain construction permits.

We reviewed data entered into CPS during the period October 1, 2000 through September 30, 2002 and determined that 8,524 permits had been issued. However, during our review of CPS data, we noted that 14 (52%) of 27 locations (regions and TSCs) reported a decline of permits issued of over 30% between fiscal years 2000-01 and 2001-02. We visited two of the locations that had experienced declines and determined that staff had not entered permit activity into CPS; instead, they were maintaining it in either handwritten ledgers or an electronic format other than CPS. Staff at both locations stated that they would update CPS during the winter months when construction activity was slower.

We also noted that pertinent information was not entered for many of the 8,524 permits that were entered into CPS. Of the permits issued:

- a. Five percent (410 permits) did not include an indication of the fee status (cash, billable, or exempt).
- b. Four percent (309 permits) did not include an indication of the fee amount.

- c. Thirteen percent (1,112 permits) did not include an indication of the type of work associated with the permit.

Complete and timely entry of permit issuance information into CPS is essential to allow for effective use of the data and to help ensure timely billing, collection, and deposit of customer fees.

RECOMMENDATION

We recommend that MDOT staff enter all applicable information into CPS.

AGENCY PRELIMINARY RESPONSE

MDOT concurs with the recommendation. MDOT will distribute a memorandum by August 1, 2003, emphasizing the importance of CPS and the requirement that staff enter all applicable information in a complete and timely fashion.

FINDING

5. Billboard Permit Renewals

MDOT needs to ensure that billboard permit renewals and revocations are processed in accordance with State statute and MDOT procedures.

Section 252.307 of the *Michigan Compiled Laws* requires that billboard permit renewals be submitted to MDOT at least 30 days before their expiration date. MDOT procedures require that renewal notifications be mailed to billboard owners 7 weeks before the permit expiration date. These procedures require that second notices be mailed 7 days after the permit expiration date and that 61 days after sending the second notice, MDOT can initiate action to require removal of the billboard. MDOT procedures also require that each region conduct annual inventories of all billboards in its region and update MDOT's inventory.

Our review of MDOT's Billboard Permit Renewal System disclosed:

- a. MDOT did not send initial and second renewal notices to customers for the 3,349 billboard permits expiring on March 31, 2002 in a timely manner. Initial notices were mailed on March 8, 2002 and second notices on May 17, 2002, 26 and 40 days late, respectively, based on MDOT's billboard permit renewal

procedure. Also, because of a failure with the computerized permit system, 103 second notices were not included in the original second notice mailing.

- b. MDOT did not always initiate the permit revocation process when billboard owners did not remit renewal fees in a timely manner. The permit revocation process is MDOT's only method of encouraging timely payment of renewal fees. There is no provision in the enabling legislation for charging late fees.

We randomly selected 11 customer accounts representing 775 permits and \$24,742 in renewal fees to determine the timeliness of renewal fee remittances. We determined that 8 (73%) accounts representing 770 (99%) of the permits and \$24,605 (99%) of the renewal fees were received an average of 25 days after the renewal date. One account, which represented 748 permits and \$23,995, was 79 days late, or 19 days after the 60-day deadline that allows MDOT to initiate action to require removal of the billboard. MDOT had not initiated action to revoke the permits.

- c. MDOT did not verify that the billboards with permits that had been revoked were removed in a timely manner. Our review of the status of 8 of 39 billboards with permits that had been revoked disclosed that 4 had not been confirmed as having been removed as of the date of our audit test, a period of 160 to 209 days after the permits were revoked. Of the 4 billboards for which MDOT confirmed the removal, 2 were not confirmed until 195 days after the permit was revoked. The other 2 billboards had been removed 195 days prior to the renewal date for the permits; however, MDOT never removed them from the system inventory.

Timely renewal notification and follow-up of billboard permits that are not renewed is essential to ensure that billboards are not allowed to remain in use without payment of the required permit fees.

RECOMMENDATION

We recommend that MDOT ensure that billboard permit renewals and revocations are processed in accordance with State statute and MDOT procedures.

AGENCY PRELIMINARY RESPONSE

MDOT concurs with the recommendation. Since the audit was completed, MDOT has developed and implemented a new computer program to help in all phases of the billboard permit process, including the issuance of renewals and the revocation of permits. The Highway Advertising Program (HAP) should greatly assist in this process. MDOT has also developed tracking procedures for verifying the removal of billboards where the permit has been revoked. MDOT will distribute a memorandum to the operating units by August 1, 2003, emphasizing the importance of removing billboards in a timely fashion where permits have been revoked.

Glossary of Acronyms and Terms

CPS	Construction Permit System.
DMB	Department of Management and Budget.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
MDOT	Michigan Department of Transportation.
mission	The agency's main purpose or the reason that the agency was established.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
REMIS	Real Estate Management Information System.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
TSC	transportation service center.